

UK ENERGY POLICY UNCERTAINTIES AND THE FUTURE FOR COAL

Last year the UK generated 39% of its electricity from coal; a lower figure than in 2012, but still 30% higher than in 2009.

Is this a short term trend, given the UK's commitment under the legally binding Climate Change Act to a 34% emissions reduction by 2020 and 80% by 2050, compared to 1990 levels?

Whilst all three of the UK's main political parties remain committed to decarbonisation, cracks have been appearing in what was a cross-party consensus. Most recently, the Conservative Party has vowed to stop any new onshore wind developments if they win the 2015 election outright, compared to Prime Minister David Cameron's pledge, before the last election, 'to lead the greenest government ever'. In the 2014 Budget, Chancellor George Osborne also capped the UK's unilateral carbon tax at the 2015/16 level of around £18/tonne of CO₂ for the remainder of the decade – albeit a level which still roughly doubles the price of coal to operators.

The Labour party voted before Christmas for measures that would hasten the closure of the UK's coal-fired generation fleet, but was defeated by the Conservatives, together with their Liberal Democrat coalition partners, who had to be whipped into line. And whilst Labour strongly defends its green credentials, it has promised an electricity price freeze if it wins the next election, blaming high electricity prices on the behaviour of the 'big six' suppliers, apparently blinkered to the impact of wholesale gas prices and the costs of renewables subsidies.

This cocktail of uncertainties has created paralysis in the investment community. Not only the delivery of the much vaunted decarbonised electricity system is threatened, but even short term investment in gas capacity to keep the lights on. The Government's enthusiasm for shale gas appears to underestimate the obstacles, not least from environmental campaigners. The potential to have a significant impact on UK gas supply, at least in the short to medium term, is massively over-hyped. Meanwhile, new nuclear capacity will be delayed even further by the EU's state aid investigation of the Government's subsidy deal with EDF.

So is there now a scenario for existing coal plant to carry on generating at significant levels in the medium term?

In terms of indigenous coal supply, the managed closure of two of the country's remaining three major deep mines has been announced by UK Coal, in a package supported by a loan from Government. This will increase further the dependence on imported supply – already almost 80% in 2013 – and will reduce what little sympathy for coal remains in the political community.

But will the sheer affordability and reliability of coal win the day and encourage power station operators to undertake the investments necessary to meet the requirements of the EU's Industrial Emissions Directive? The failure of Government to support as many biomass conversion projects as proposed by the coal generators may also be focussing minds back towards coal. And in the longer term, Government's espousal of carbon capture and storage is the one bright spot on the horizon for the sector.

Energy Edge certainly does not have all the answers, but has a team of experts covering all aspects of coal markets and supply, power station operation, and EU and UK regulation, to develop scenarios and advise on strategic solutions for companies in the sector. Please contact [Nigel Yaxley](#) for a preliminary chat or to set up a workshop discussion.